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GERALD L. FRIEDMAN  
CHAIRMAN

MIKE HOUSE  
EXECUTIVE DIRECTOR

May 1, 2000

**By Hand Delivery**  
Hon. Ellen Seidman  
Director  
Office of Thrift Supervision  
1700 G Street, N.W.  
Washington, D.C. 20552

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DISSEMINATED  
OFFICE OF THE  
DIRECTOR

Dear Director Seidman:

We are writing to bring to your attention a concern with the current data available to bank regulators on the concentration risk posed by Fannie Mae and Freddie Mac. We submit these views on the understanding that all of the bank regulators will shortly propose revisions to the bank call reports, which may propose changes to the Thrift Financial Report (TFR) as well. We also submit this letter in specific comment to the proposed changes to the TFR proposed in Docket 1550-0223. This letter is, as noted below, copied to the appropriate OTS officer in that regard.

As you know, Treasury Secretary Summers has pointed to the systemic risk posed by the housing GSEs, particularly Fannie Mae and Freddie Mac. Although these agencies perform a vital role in financing American housing, their size and market dominance has raised serious policy concerns. On March 22, Treasury Under-Secretary Gensler told the House Capital Markets Subcommittee that banks hold \$210 billion in GSE debt, amounting to four percent of assets and one-third of capital. Bank holdings of GSE MBS total \$355 billion or 7% of capital and 56% of assets. Based on Federal Reserve data, Chairman Baker testified on April 11 that 41% of banks hold 100% or more of their capital in GSE debt.

These data are drawn from the bank call reports. However, the bank report does not differentiate among a wide range of organizations with very different risk profiles. Fannie Mae and Freddie Mac are, for example, lumped together with Ginnie Mae for determining bank GSE MBS holdings, even though the risk associated with Ginnie Mae (a direct instrumentality of the U.S. Government) are very different.

The concentration of GSE risk at savings associations could well be higher than it is at banks, given the requirement under the qualified thrift lender test that savings associations hold the bulk of their assets in housing-related debt and MBS. Unfortunately, the current TFR does not permit one to make a clear determination of this. As a result, we urge you to revise the TFR to include a specific disclosure of the amount of Fannie Mae/Freddie Mac debt and MBS held by savings associations. With this data in hand, you can then make an informed determination of how much credit and concentration risk

exists and decide if concentration risk-based capital, exposure limits, or other remedies are warranted.

The Basle Committee on Bank Supervision has cited transparency as one of the three pillars of effective bank supervision. Given the magnitude of the risk presented by what is known about thrift holdings in GSE risk, we think it essential that regulators move quickly to obtain good data about the true extent of this problem. This will promote not only improved supervision, but also market discipline.

We would be pleased to provide additional detail on our concerns.

Sincerely,

  
Mike House

cc: Manager, Dissemination Branch ✓  
Records Management and Information Policy  
Attention 1550-0223